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德 基 科 技

D&G TECHNOLOGY

D&G TECHNOLOGY HOLDING COMPANY LIMITED

<INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY>

STOCK CODE 1301



2021 INTERIM REPORT



中環香港BOCHK
企業環保領先大獎2020
Green Environmental Leadership Award



5 Years
中環香港BOCHK
企業環保領先大獎2020
Green Environmental Leadership Award



Corporate Vision
Corporate Green Leadership Award
Hong Kong Green Awards 2020



5 years+
商界展關懷
caringcompany
Awarded by The Hong Kong Council of Social Service
香港社會服務界協會頒發



HKQAA
Preference Stage
Certificate No. GC 5710

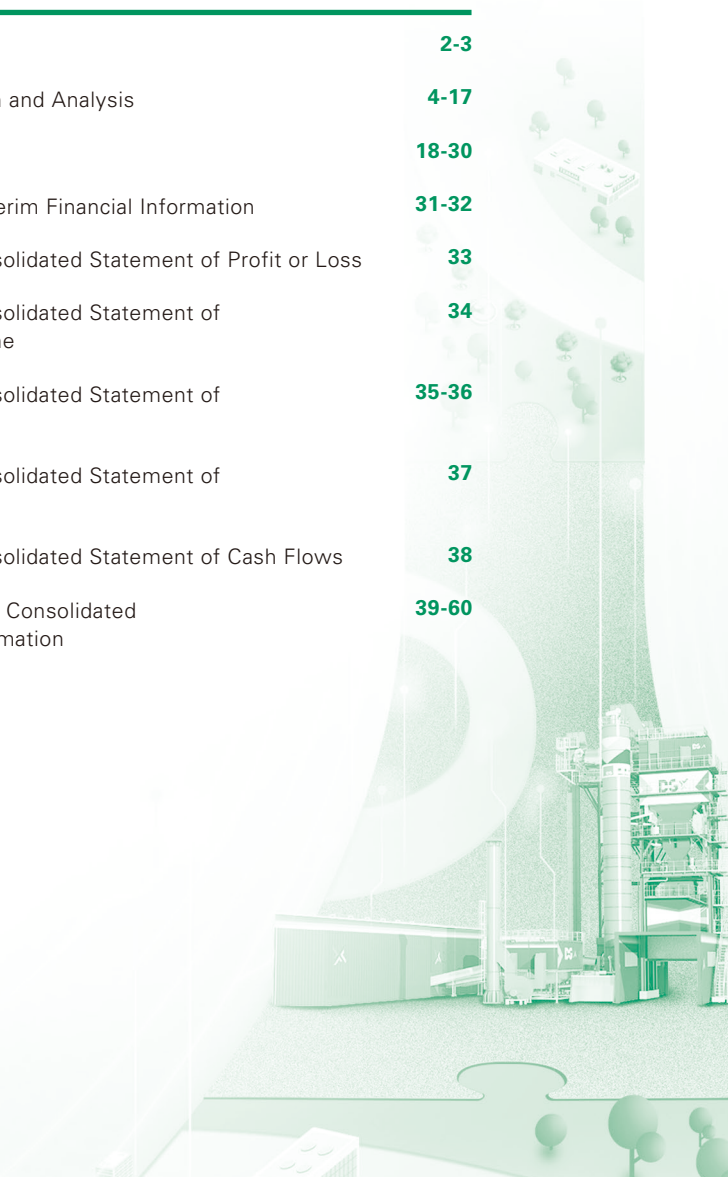


5 years+
香港綠色企業大獎 2020
Hong Kong Green Awards



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Choi Hung Nang (*Chairman*)
Ms. Choi Kwan Li, Glendy
(*Chief Executive Officer*)
Mr. Choi Hon Ting, Derek
Mr. Liu Tom Jing-zhi
Mr. Lao Kam Chi

Non-Executive Directors

Mr. Chan Lewis
Mr. Alain Vincent Fontaine

Independent Non-Executive Directors

Mr. O'Yang Wiley
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco
Mr. Fok Wai Shun, Wilson

AUDIT COMMITTEE

Mr. O'Yang Wiley (*Chairman*)
Mr. Lee Wai Yat, Paco
Mr. Li Zongjin
Mr. Fok Wai Shun, Wilson

REMUNERATION COMMITTEE

Mr. Fok Wai Shun, Wilson (*Chairman*)
Ms. Choi Kwan Li, Glendy
Mr. O'Yang Wiley

NOMINATION COMMITTEE

Mr. Choi Hung Nang (*Chairman*)
Mr. Li Zongjin
Mr. Lee Wai Yat, Paco

RISK MANAGEMENT COMMITTEE

Ms. Choi Kwan Li, Glendy (*Chairman*)
Mr. Liu Tom Jing-zhi
Mr. O'Yang Wiley
Mr. Fok Wai Shun, Wilson
Mr. Chung Man Lai

COMPANY SECRETARY

Mr. Chung Man Lai

AUTHORISED REPRESENTATIVES

Ms. Choi Kwan Li, Glendy
Mr. Chung Man Lai

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54 Hopewell Centre,
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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman)
Limited
Cricket Square,
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Grand Cayman, KY1-1111,
Cayman Islands

AUDITOR

PricewaterhouseCoopers
*Certified Public Accountant and
Registered PIE Auditor*

LEGAL ADVISOR

MinterEllison LLP

PRINCIPAL BANKERS

Industrial Bank Co., Ltd.
Nanyang Commercial Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

COMPANY WEBSITE

www.dgtechnology.com

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

General Review

In the first half of 2021, D&G Technology Holding Company Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) continued to be a leading market player in the road construction and maintenance machinery industry, focusing on medium to large-scale asphalt mixing plants. The Group provided one-stop customised solutions to customers in the People’s Republic of China (“**PRC**”, “**China**” or “**Mainland China**”) and overseas markets, specialising in the research and development, design, manufacturing and sale of conventional and recycling asphalt mixing plants.

The Group offered a full range of asphalt mixing plants from small to large-scale to cater to the needs of different customers. The asphalt mixing plants can be divided into two main categories: (i) conventional hot-mix asphalt mixing plant (“**Conventional Plant**”) and (ii) recycling hot-mix asphalt mixing plant (“**Recycling Plant**”). The asphalt mixtures produced by the asphalt mixing plants of the Group can be used in the construction and maintenance of all levels of roads and highways. The Recycling Plants of the Group, in addition to producing regular asphalt mixtures, can also produce recycled asphalt mixtures which contain a combination of reclaimed asphalt pavement and new materials such as bitumen, aggregates and fillers. The use of Recycling Plants achieves the objectives of resources recycling and cost saving in the production of asphalt mixtures.

During the six months ended 30 June 2021, the Group continued to participate in top-tier highways construction and maintenance projects in the PRC and overseas countries. There were twenty (2020: thirteen) sales contracts of asphalt mixing plants completed by the Group during the period and the asphalt mixing plants were used in major highway construction and maintenance projects such as Anhui Bengbu-Wuhe Expressway (安徽蚌五高速), Hegang-Dalian Expressway (鹤大高速), Dhaka Highway (達卡公路), etc. Revenue from sales of asphalt mixing plants increased by approximately 62.0% during the period, whereas, the sales of asphalt mixing plants accounted for approximately 91.6% (2020: 86.9%) of the total revenue of the Group. Such increase was mainly attributable to the increase in sales of the Group amidst the gradual recovery of the economy from the impact of the Coronavirus Disease 2019 (“**COVID-19**”) pandemic. The Group’s gross profit increased to RMB66,089,000 (2020: RMB14,227,000) which was mainly attributable to the increase in sales of asphalt mixing plants; the decrease in provision for impairment of inventories amounted to RMB128,000 (2020: RMB15,568,000); and the absence of impairment of property, plant and equipment (2020: RMB3,677,000).

MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in provision for impairment of inventories during the period was mainly due to the procedures developed by the Group to closely monitor the inventory levels of slow-moving raw materials and work in progress as a result of COVID-19. The Group expects it will continue to improve gradually.

On the other hand, the Group has made a gross loss in the operating lease business since 2018, mainly due to the delay in public-private partnership projects in China, the outbreak of COVID-19 and the inadequate production of asphalt mixtures of the plants leased to its customers. Since the rental income of the plants was based on the production output of asphalt mixtures, the decrease in production output directly affected the rental income of the Group. As a result, the rental income was not able to cover the fixed overhead of the plants, which resulted in a loss-making position. Since 2019, the Group has scaled down the operating lease business to diminish the gross loss and only three asphalt mixing plants were held as at 30 June 2021. Thus, no additional impairment of property, plant and equipment has been made during the period.

Management has been cautiously monitoring the collection of trade receivables in order to improve the cash cycle. During the period, management continued to put extra effort in receivable collection and tighten its credit controls on new and existing customers. The Group has recovered certain long overdue trade receivables of which provision for impairment loss has been made in prior years and re-assessed the recoverability of its trade receivables. The overall settlement from customers has also improved. The Group therefore made a reversal of provision for impairment loss of trade receivables of approximately RMB5.2 million during the period. Nevertheless, the Group shall strictly adhere to its credit policy and continuously strengthen its internal control procedures so as to improve the receivable collection cycle and shorten the debtors' turnover days.

The Group has been expanding its business and entering into potential markets along the "Belt and Road" countries. Out of the twenty sales contracts of asphalt mixing plants completed during the period, three were completed in overseas countries including Bangladesh, Cameroon and Liberia. Although the overseas road construction projects along the "Belt and Road" countries slowed down during the period, the Group has entered into one sales contract with a customer in Russia, which is expected to be completed in the second half of the year. To further penetrate the markets in the developing countries, the Group has also developed a compact mobile asphalt plants series in product line. The outbreak of COVID-19 casted uncertainties in the overseas market, however, with the established overseas network, the Group expects the road construction projects along the "Belt and Road" countries to resume once the COVID-19 situation is under control.

MANAGEMENT DISCUSSION AND ANALYSIS

Development of Upstream and Downstream Asphalt Related Business

Asphalt mixture is the essential asphalt road construction material. The Group is committed to the development of asphalt related business along the supply chain with an aim to broaden income sources and raise profits. In order to leverage the synergies of local expertise, the Group has been seeking potential strategic partners to develop the production and sale of asphalt mixtures business.

Sichuan Rui Tong De Long New Materials Technology Limited (“Sichuan RTDL”)*

On 30 May 2021, Langfang De Feng New Materials Technology Limited* (“**Langfang De Feng**”) entered into a share transfer agreement with Sichuan Xin De Yuan Trading Limited* (“**Sichuan Xin De Yuan**”) to transfer 50% of equity interest in Sichuan RTDL to its joint venture partner for a consideration of approximately RMB2.4 million.

Upon the completion of the share transfer, Sichuan RTDL will be 100% owned by Sichuan Xin De Yuan and Langfang De Feng will have no interest in Sichuan RTDL and thus Sichuan RTDL will no longer be a joint venture of the Group.

The Group expected that with the leverage of local expertise of Sichuan Xin De Yuan, the establishment of Sichuan RTDL would push forward the application of asphalt mixing plant station with local government in Sichuan. However, the progress of development of asphalt mixing plant station remained slow since the joint venture was formed. The Group’s management has reassessed the business development potential of Sichuan RTDL and considered that the share transfer offers an opportunity for the Group to realise its investment at a profit and can provide funds to cater for other new suitable investment opportunities with more growth potential in the development of production and sales of asphalt mixture plant business.

Development of combustion technology

During the period, the Group continued to conduct research on the combustion technology in order to develop the business of manufacturing and sale of burner combustion equipment and the provision of related technical support services. The burner combustion equipment can be applied in a wide spectrum including asphalt mixing plants, furnace, heating system, etc. As at 30 June 2021, forty (31 December 2020: thirty-nine) patents of combustion technology were registered, one patent was pending registration.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Investment in a convertible bond (the “Convertible Bond”)

On 10 August 2020, the Group’s wholly owned subsidiary, Langfang D&G Machinery Technology Company Limited* (“**Langfang D&G**”) (as the lender), has entered into a convertible bond agreement with Zhejiang Zhengfang Asphalt Concrete Technology Limited* (the “**Zhengfang ACT**”) (as the borrower). It is a wholly owned subsidiary of Zhejiang Zhengfang Holding Limited, as a guarantor in the convertible bond agreement, a road construction company in Zhejiang, China which is an existing customer of Langfang D&G.

The Convertible Bond is in a total amount of RMB20 million. The Convertible Bond is interest bearing at 6% per annum with a loan period commencing from the drawdown date to 30 April 2024.

Pursuant to the convertible bond agreement, Langfang D&G has the right to exercise its equity conversion option at the conversion ratio of the higher of (i) 1.5 times of the net assets of the Zhengfang ACT as at 31 December 2023 or (ii) 6 times of the weighted average of its net profits for the years ended 31 December 2022 and 2023, both of which are calculated with reference to its audited accounts prepared in accordance with the PRC generally accepted accounting principles.

Partnership with LiuGong Wuxi Road Equipment Co., Ltd. (“LiuGong Road Equipment”)*

In May 2021, the Group has entered into an agreement with LiuGong Road Equipment to become the exclusive supplier of asphalt mixing plant for LiuGong Road Equipment. The Group will research and develop, design and manufacture products under the label of “LiuGong”, by leveraging its technical strength, as well as LiuGong’s well-established distribution network and strong financial services capabilities, to sell the products to domestic and overseas markets. The Group expects this strategic partnership will further penetrate the mid-end asphalt mixing plant market to win more orders and expand its revenue stream. Furthermore, the collaboration enables LiuGong Road Equipment to enrich and improve its one-stop road construction equipment solution to achieve a win-win situation.

Research and Development

To maintain its position as a leading market player in the road construction and maintenance machinery industry focusing on medium to large-scale asphalt mixing plants, the Group continued to maintain its strong research and development capabilities. As at 30 June 2021, the Group had one hundred and forty-nine registered patents in the PRC (of which four were invention patents and two appearance patents) and twenty-seven software copyrights. In addition, the registration of twenty-four patents were pending approval as at 30 June 2021.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Marketing and Awards

The Group places great emphasis on the marketing and promotion of its brands, products and services offered and leverages different online platforms, including global trading B2B online platforms, mobile websites, LinkedIn and the WeChat platform to offer better services to customers and establish a better brand image in both the PRC and overseas markets.

During the period, the Group participated in various promotional events, technical seminars and corporate social responsibility events such as the Green Road Maintenance Equipment Exchange Conference with Dynapac Group held in Qinghai, the Bauma CTT Russia 2021 held in Russia, the Green Carnival 2021 and the Earth Hour 2021.

In March 2021, the Group was awarded the “5 Years Plus Caring Company” which was organised by the Hong Kong Council of Social Service.

Outlook

In view of the ongoing US-China trade war and COVID-19, we believe the PRC government will continue adopting policies to stimulate the local economy and increase the fixed asset investment. Besides, in light of growing awareness on environmental protection issues during the asphalt mixture production among the road construction and maintenance companies and the PRC government’s emphasis on reducing pollution from industrial sector, the demand for our recycling and environmentally-friendly products continue to grow in the long run. There will be increasing demand for the recycling asphalt plants as well as the modification services of adding recycling and environmental protection functions to existing plants. The Group will further promote green technology innovation and continue to improve its competitive advantage so as to reinforce its leading position in the market.

Investment in infrastructure overseas is a way of building up strategic partnerships with countries along the “Belt and Road” region for the PRC government. However, the “Belt and Road” activities have slowed down due to the US-China trade war and COVID-19. It is expected the US-China trade war shall continue but the Group is prepared to grasp the business opportunities arising from the “Belt and Road” construction projects once the tension between the United States of America (the “US”) and China has been lessen.

Since the technologies of the Group’s asphalt mixing plants are widely adopted in countries except the US, the Group does not export its products to the US. The US-China trade war does not have direct impact on the Group’s performance during the period. However, the Group expects that the ongoing trade war may affect the economies of some of the “Belt and Road” countries which will indirectly affect the Group’s export businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group expects that the local demand for asphalt mixing plants in the second half of 2021 shall gradually increase as the PRC government would inject more funds into domestic infrastructure projects to stimulate the local economy. Management also expects the customers shall accelerate the settlements going forward as more road construction projects and funding shall be in place in China. With its established overseas network and high-technology asphalt mixing plants, the Group is prepared to grasp the opportunities of upgrading asphalt mixing plant technology and equipment in countries such as India and in the ASEAN region. To utilise the Group's wide clientele base of over 600 asphalt plants spreading across the PRC and 35 nations overseas, the Group is also exploring business opportunities in developing business upstream into the road construction and maintenance materials supply chain and downstream into the asphalt mixture provision. The Group will however manage its business development strategies cautiously due to the relatively volatile international economic and political conditions.

FINANCIAL REVIEW

During the six months ended 30 June 2021, the Group recorded a total revenue of RMB197,078,000 (2020: RMB128,331,000), representing an increase of approximately 53.6% as compared to the last corresponding period. Gross profit increased from RMB14,227,000 for the six months ended 30 June 2020 to RMB66,089,000 for the six months ended 30 June 2021, representing an increase of approximately 364.5%. Gross profit margin increased by 22.4 percentage points from 11.1% to 33.5%. The Group recorded a net profit attributable to owners of the Company of RMB8,228,000 compared with a net loss of RMB27,009,000 in the last corresponding period.

	Six months ended 30 June		
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Change
Sales of asphalt mixing plants	180,559	111,476	62.0%
Sales of spare parts and modified equipment	14,312	15,795	-9.4%
Operating lease income of asphalt mixing plants	2,207	1,060	108.2%
	197,078	128,331	53.6%

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of Asphalt Mixing Plants

	Six months ended 30 June		Change
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	
Revenue	180,559	111,476	62.0%
Gross profit (Note)	61,017	30,111	102.6%
Gross profit margin	33.8%	27.0%	6.8pp
Number of contracts	20	13	7
Average contract value	9,028	8,575	5.3%

Revenue from the sales of asphalt mixing plants increased as a result of the increase in number of contracts and the increase in the gross profit margin. The increase in number of contracts was mainly due to the gradual recovery of the economy from the impact of the COVID-19 pandemic. The increase in the gross profit margin was primarily due to the increase in the number of sales with higher capacity (usually with higher gross profit margin). For the same reason, the average contract value increased as compared to the last corresponding period.

Note: Impairment of inventories of RMB128,000 was made for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB15,586,000) and charged to the "Cost of sales". The gross profit of the sales of asphalt mixing plants presented above and in this section has excluded the provision for impairment of inventories for analysis purpose.

By Types of Plants

	Six months ended 30 June		Change
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	
Recycling Plant			
Revenue	94,446	38,961	142.4%
Gross profit	30,833	11,380	170.9%
Gross profit margin	32.6%	29.2%	3.4pp
Number of contracts	8	4	4
Average contract value	11,806	9,740	21.2%
Conventional Plant			
Revenue	86,113	72,515	18.8%
Gross profit	30,184	18,731	61.1%
Gross profit margin	35.1%	25.8%	9.3pp
Number of contracts	12	9	3
Average contract value	7,176	8,057	-10.9%

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue from the sales of Recycling Plants increased by 142.4% which was mainly due to the increase in the number of contracts completed and the increase in the average contract value during the period. The increase in gross profit margin was mainly due to the increase in the number of sales for Recycling Plants with higher capacity (i.e. 4000 model series or above which have higher gross profit margin than lower capacity series) during the period. For the same reason, the average contract value increased as compared to the last corresponding period.

Revenue from the sales of Conventional Plants increased by 18.8% primarily because of the increase in the number of contracts and offset by the decrease in the average contract value during the period. The decrease in the average contract value was mainly attributable to relatively more asphalt mixing plants sold with lower capacity (PM model series) as compared to the last corresponding period.

By Geographical Location

	Six months ended 30 June		
	2021 RMB'000	2020 RMB'000	Change
PRC			
Revenue	171,696	81,180	111.5%
Gross profit	59,530	23,027	158.5%
Gross profit margin	34.7%	28.4%	6.3pp
Number of contracts	17	9	8
Average contract value	10,100	9,020	12.0%
Overseas			
Revenue	8,863	30,296	-70.7%
Gross profit	1,487	7,084	-79.0%
Gross profit margin	16.8%	23.4%	-6.6pp
Number of contracts	3	4	-1
Average contract value	2,954	7,574	-61.0%

Revenue from the PRC sales increased primarily because of the increase in the number of contracts completed and the increase in the average contract value. The gross profit margin increased by 6.3 percentage points to 34.7% was mainly due to the increase in the number of sales with higher capacity sold during the period. For the same reason, the average contract value increased as compared to the last corresponding period.

Revenue from the overseas sales decreased mainly because of the decrease in the number of contracts completed and the average contract value. The gross profit margin decreased by 6.6 percentage points to 16.8% was mainly due to asphalt mixing plants sold during the period were all PM model series which have lower contract price and lower gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of Spare Parts and Components and Modified Equipment

	Six months ended 30 June		Change
	2021 RMB'000	2020 RMB'000	
Revenue	14,312	15,795	-9.4%
Gross profit	5,464	6,653	-17.9%
Gross profit margin	38.2%	42.1%	-3.9pp

The Group sold spare parts and components for the asphalt mixing plants to its customers as value-added services. The Group also sold modified equipment, including modifying the Conventional Plants, installing key components with recycling functions, upgrading control systems and other customised services.

During the period, the revenue from sales of spare parts and components amounted to RMB12,570,000 (2020: RMB10,629,000) and the revenue from sales of modified equipment amounted to RMB1,742,000 (2020: RMB5,166,000). The decrease in revenue was mainly due to the decrease in the number of customers demand for modification of Conventional Plants. The gross profit margin decreased by 3.9 percentage points during the period was mainly due to more competitive pricing given to the customers in order to attract new customers.

Operating Lease Income of Asphalt Mixing Plants

The Group offered operating lease of asphalt mixing plants directly to its customers which generally need asphalt mixing plants on a project basis. The lease contracts were generally with the provisions on rental per tonne and minimum production quantity commitment.

Revenue from operating lease of asphalt mixing plants amounted to RMB2,207,000 during the period (2020: RMB1,060,000). The increase in revenue by 108.2% because the total volume of productions increased as compared to the last corresponding period. During the period, the Group recorded a gross loss (including impairment losses of property, plant and equipment) for its operating lease business of approximately RMB264,000 (2020: RMB6,951,000). The gross loss was mainly because of the revenue of customers' production of asphalt mixtures could not cover the fixed overheads, including but not limited to staff costs and depreciation, charged during the period. Since 2019, the Group has continued to dispose certain asphalt mixing plants and diminish the gross loss of operating lease business during the period. A gain on disposal of one set of asphalt mixing plants amounted to RMB1,594,000 (2020: RMB6,328,000) was recorded in "Other income and other gains, net". Management will continue to reduce the number of asphalt mixing plants for operating lease business to an optimum scale this year and to improve the operating lease project quality by strengthening the control of contract review and implementation. As at 30 June 2021, three asphalt mixing plants (31 December 2020: four) were held for operating lease business.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income and Other Gains, Net

During the period, other income and other gains, net mainly represented net exchange gain arising from trading transactions and translation of pledged bank deposits and gain on disposal of property, plant and equipment. The decrease was mainly due to the decrease in gain on disposal of asphalt mixing plants in operating lease business as discussed above.

Distribution Costs

Distribution costs mainly consisted of staff costs of our sales and marketing staff, distribution fees to our distributors, freight and transportation expenses, and marketing expenses. Increase in distribution costs was mainly due to the increase in sales of asphalt mixing plants through distributors and the increase in service fee to enhanced the after-sales service performance to the customers during the period.

Administrative Expenses

Administrative expenses mainly included staff costs, research and development expenses and legal and professional fees. During the period, administrative expenses increased by approximately RMB3.3 million mainly due to the increase in research and development expenses by RMB4.2 million and the decrease in share-based payment expenses by RMB1.1 million in relation to the share options granted in June 2018.

Net Reversal of Impairment Losses on Financial Assets

The amount represented the net reversal of impairment losses on trade receivables of RMB5.2 million and reversal of impairment losses on other receivables of RMB110,000 (2020: net reversal of impairment losses on trade receivables of RMB10.9 million). The reversal of provision for impairment loss was mainly due to the settlement of long overdue trade receivables during the period. Management expects to continue to receive settlements from long overdue trade receivables and have reversal on the provision for impairment losses.

Share of Profit of an Associate

The amount represented the share of the profit of Topp Financial Leasing (Shanghai) Co., Ltd.* ("**Shanghai Topp**") of RMB958,000.

Share of Profit/(Loss) of a Joint Venture

The amount represented the share of the loss of Sichuan RTDL of RMB465,000. For details, please refer to Section "Sichuan RTDL" above.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Income, Net

Finance income, net mainly included bank interest income and interest income on unwinding discounted trade receivables offset by interest expenses on interest-bearing bank borrowings. The increase in net finance income during the period was mainly due to the decrease in interest expenses as there was a decrease in borrowings.

Income Tax Expense

The income tax expense for the six months ended 30 June 2021 was mainly attributable to the deferred tax expense arisen from the reversal of impairment losses on trade receivables, the profit tax incurred by a PRC subsidiary of the Company which is a “high and new technology enterprise” entitled to a preferential tax rate of 15%, and the withholding tax provided for the dividend declared by a PRC subsidiary of the Company.

Profit/(Loss) Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately RMB8.2 million for the six months ended 30 June 2021 compared with the loss attributable to owners of the Company of approximately RMB27.0 million for the six months ended 30 June 2020. The increase in profit for the period was mainly due to the increase in revenue and gross profit, partially offset by the increase in distribution costs as discussed above.

Working Capital Management

Net current assets of the Group amounted to RMB457,829,000 (31 December 2020: RMB432,523,000) with a current ratio of 2.4 times (31 December 2020: 2.6 times) as at 30 June 2021.

Inventories increased by RMB10,961,000 from RMB231,004,000 as at 31 December 2020 to RMB241,965,000 as at 30 June 2021. Inventory turnover days was 327 days for the six months ended 30 June 2021, representing an increase of 22 days as compared to 305 days for the year ended 31 December 2020. The increase in inventories and inventory turnover days was mainly due to the increase in raw materials purchased and work in progress for sales contracts signed but not yet recognised.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and bills receivables increased by RMB7,527,000 from RMB189,634,000 as at 31 December 2020 to RMB197,161,000 as at 30 June 2021. Trade and bills receivables turnover days was 178 days for the six months ended 30 June 2021, representing a decrease of 23 days as compared to 201 days for the year ended 31 December 2020. The decrease in trade and bills receivables turnover days during the period was primarily due to (1) the increase in deposits placed by customers during the period; (2) the increase in number of sales contracts completed; and (3) more timely settlement from PRC customers for the sales contracts entered into during the period. The Group will continue to cautiously monitor the trade receivables collection process so as to improve the collection cycle.

Trade and bills payables increased by RMB32,433,000 from RMB127,194,000 as at 31 December 2020 to RMB159,627,000 as at 30 June 2021. Trade and bills payables turnover days was 198 days for the six months ended 30 June 2021, representing an increase of 58 days as compared to 140 days for the year ended 31 December 2020. The increase in trade and bills payables and turnover days was mainly because of extended payments to suppliers and sub-contractors.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and facilities granted by its principal bankers. The treasury policies and objectives of the Group are to lower finance costs while enhancing returns on financial assets under a prudent and conservative approach.

As at 30 June 2021, the Group had cash and cash equivalents of RMB213,819,000 (31 December 2020: RMB188,778,000) and pledged bank deposits of RMB67,126,000 (31 December 2020: RMB49,011,000). In addition, the Group had interest-bearing bank borrowings of RMB27,804,000 (31 December 2020: RMB31,145,000). The Group's cash and cash equivalents, pledged bank deposits and borrowings were mostly denominated in Renminbi, Hong Kong dollars and US dollars. The borrowings were mainly arranged on a floating rate basis. The gearing ratio, calculated as total borrowings divided by equity attributable to the owners of the Company, amounted to 4.2% (31 December 2020: 4.8%).

During the six months ended 30 June 2021, the Group recorded cash generated from operating activities of RMB9,401,000 (six months ended 30 June 2020: cash used in operating activities of RMB6,131,000). Net cash generated from investing activities amounted to RMB7,540,000 (six months ended 30 June 2020: RMB25,765,000) for the six months ended 30 June 2021. Net cash generated from financing activities for the six months ended 30 June 2021 amounted to RMB8,833,000 (six months ended 30 June 2020: cash used in financing activities of RMB20,697,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Commitments and Contingent Liabilities

The Group's capital commitments for investment in a joint venture and purchase of property, plant and equipment at the end of the period are as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Contracted for		
– Investment in a joint venture	–	4,500
– Property, plant and equipment	937	2,015
	937	6,515

As at 30 June 2021, there is no capital commitments authorised but not contracted for (31 December 2020: Same).

Certain customers of Langfang D&G, a principal operating subsidiary of the Group, financed their purchases of the Group's plants through finance leases provided by third-party leasing companies and Shanghai Topp. Under the leasing arrangements, Langfang D&G provided guarantee to the third-party leasing companies and Shanghai Topp that in the event of customer default, the third-party leasing companies and Shanghai Topp have the rights to demand Langfang D&G to repay the outstanding lease payments due from the customers for the repossession of the leased plants. As at 30 June 2021, the Group's maximum exposure to such guarantees was approximately RMB68,641,000 (31 December 2020: RMB91,570,000).

Pledge of Assets

As at 30 June 2021, property, plant and equipment of RMB41,466,000 (31 December 2020: RMB42,419,000), land use right of RMB4,638,000 (31 December 2020: RMB4,705,000) and bank deposits of RMB67,126,000 (31 December 2020: RMB49,011,000) were pledged for borrowings and bills payables of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Risk

The reporting currency of the Group was Renminbi. The Group was exposed to foreign exchange risk through sales and purchases which were denominated in a foreign currency including US dollars and Euros. The appreciation or depreciation of Renminbi against these foreign currencies would increase or decrease the price of the Group's products which were sold to overseas market and might bring negative or positive impact on the Group's export sales. On the other hand, the appreciation or depreciation of Renminbi would also decrease or increase the cost of sales of the Group in respect of the purchases of raw materials from overseas. The management has continuously monitored the level of exchange rate exposure and shall adopt financial hedging instruments for hedging purpose when necessary. The Group did not use any financial instruments for hedging purpose for the six months ended 30 June 2021.

Significant Investments and Material Acquisitions or Disposals

During the six months ended 30 June 2021, the Group did not have any significant investments or material acquisitions or disposals.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, the interests or short positions of the directors of the Company (the “**Directors**”), the chief executives of the Company (the “**Chief Executives**”) and their associates in the shares of the Company (the “**Shares**”), underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “**SFO**”), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) were as follows:

(i) Interests in Shares and underlying shares

Name of Director	Long/ Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Mr. Choi Hung Nang	Long	Interest in controlled corporation ⁽¹⁾	345,696,000	54.07%
	Long	Interest of spouse ⁽²⁾	620,000	0.10%
	Long	Beneficial owner	46,246,000	7.23%
	Long	Beneficial owner ⁽³⁾	4,000,000	0.63%
Ms. Choi Kwan Li, Glendy	Long	Beneficial owner	4,150,000	0.65%
	Long	Beneficial owner ⁽³⁾	4,000,000	0.63%
Mr. Choi Hon Ting, Derek	Long	Beneficial owner	4,150,000	0.65%
	Long	Beneficial owner ⁽³⁾	4,000,000	0.63%
Mr. Liu Tom Jing-zhi	Long	Interest in controlled corporation ⁽⁴⁾	13,500,000	2.11%
	Long	Interest of spouse ⁽⁴⁾	150,000	0.02%
	Long	Beneficial owner	2,000,000	0.31%
	Long	Beneficial owner ⁽⁵⁾	2,000,000	0.31%

OTHER INFORMATION

Name of Director	Long/ Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Mr. Lao Kam Chi	Long	Interest in controlled corporation ⁽⁶⁾	9,000,000	1.41%
	Long	Beneficial owner	2,000,000	0.31%
	Long	Beneficial owner ⁽⁵⁾	2,000,000	0.31%
Mr. Chan Lewis	Long	Beneficial owner	300,000	0.05%
	Long	Beneficial owner ⁽⁷⁾	300,000	0.05%
Mr. Alain Vincent Fontaine	Long	Beneficial owner ⁽⁸⁾	300,000	0.05%
Mr. Li Zongjin	Long	Beneficial owner	300,000	0.05%
	Long	Beneficial owner ⁽⁷⁾	300,000	0.05%
Mr. Lee Wai Yat, Paco	Long	Beneficial owner	300,000	0.05%
	Long	Beneficial owner ⁽⁹⁾	300,000	0.05%
Mr. Fok Wai Shun, Wilson	Long	Beneficial owner	400,000	0.06%
	Long	Beneficial owner ⁽¹⁰⁾	400,000	0.06%

(ii) Interests in shares and underlying shares of associated corporation

Name of Director	Name of associated corporation	Long/ Short position	Type of interest	Approximate percentage of shareholding interest
Mr. Choi Hung Nang	Prima DG Investment Holding Company Limited ("Prima DG")	Long	Beneficial owner	40%
Ms. Choi Kwan Li, Glendy	Prima DG	Long	Beneficial owner	20%
Mr. Choi Hon Ting, Derek	Prima DG	Long	Beneficial owner	20%

OTHER INFORMATION

Notes:

1. The 345,696,000 Shares were held by Prima DG, which is directly held as to 40% by Mr. Choi Hung Nang. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Prima DG is interested.
2. The 620,000 Shares were held by his spouse, Ms. Tin Suen Chu. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Ms. Tin Suen Chu is interested.
3. Each of Mr. Choi Hung Nang, Ms. Choi Kwan Li, Glendy and Mr. Choi Hon Ting, Derek was granted 4,000,000 share options during the year ended 31 December 2016 and 4,000,000 share options during the year ended 31 December 2018 under the share option scheme of the Company adopted on 6 May 2015 (the "**Share Option Scheme**"). 4,000,000 share options were exercised during the period ended 30 June 2021 and was deemed to be interested in 4,000,000 underlying shares in respect of the share options granted during the year ended 31 December 2018.
4. The 13,500,000 Shares were held by Zacks Vroom Investment Company Limited, a company wholly-owned by Mr. Liu Tom Jing-zhi. The 150,000 Shares were held by his spouse, Ms. Thai Vanny. Accordingly, by virtue of the SFO, Mr. Liu is deemed to be interested in all the Shares in which Zacks Vroom Investment Company Limited and Ms. Thai Vanny are interested.
5. Each of Mr. Liu Tom Jing-zhi and Mr. Lao Kam Chi was granted 2,000,000 share options during the year ended 31 December 2016 and 2,000,000 share options during the year ended 31 December 2018 under the Share Option Scheme. 2,000,000 share options were exercised during the period ended 30 June 2021 and was deemed to be interested in 2,000,000 underlying shares in respect of the share options granted during the year ended 31 December 2018.
6. The 9,000,000 Shares were held by Denmike Investment Company Limited, a company wholly-owned by Mr. Lao Kam Chi. Accordingly, by virtue of the SFO, Mr. Lao is deemed to be interested in all the Shares in which Denmike Investment Company Limited is interested.
7. Each of Mr. Chan Lewis and Mr. Li Zongjin was granted 300,000 share options during the year ended 31 December 2016 and 300,000 share options during the year ended 31 December 2018 under the Share Option Scheme. 300,000 share options were exercised during the period ended 30 June 2021 and was deemed to be interested in 300,000 underlying shares in respect of the share options granted during the year ended 31 December 2018.

OTHER INFORMATION

8. Mr. Alain Vincent Fontaine was granted 300,000 share options during year ended 31 December 2018 under the Share Option Scheme and was deemed to be interested in 300,000 underlying shares in respect of the share options granted.
9. Mr. Lee Wai Yat, Paco was granted 300,000 share options during the year ended 31 December 2016 and 300,000 share options during the year ended 31 December 2018 under the Share Option Scheme. 300,000 share options were exercised during the year ended 31 December 2019. He was deemed to be interested in 300,000 underlying shares in respect of the share options granted during the year ended 31 December 2018.
10. Mr. Fok Wai Shun, Wilson was granted 400,000 share options during the year ended 31 December 2016 and 400,000 share options during the year ended 31 December 2018 under the Share Option Scheme. 400,000 share options were exercised during the period ended 30 June 2021 and was deemed to be interested in 400,000 underlying shares in respect of the share options granted.

Save as disclosed above, as at 30 June 2021, none of the Directors, the Chief Executives nor their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, so far as known to the Directors, the following interests of 5% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Long/ Short position	Type of interest	Number of Shares and underlying shares held	Approximate percentage of shareholding in the Company
Prima DG ¹	Long	Beneficial owner	345,696,000	54.07%
Mr. Choi Hung Nang ¹	Long	Interest in controlled corporation	345,696,000	54.07%
	Long	Interest of spouse	620,000	0.10%
	Long	Beneficial owner	46,246,000	7.23%
	Long	Beneficial owner ²	4,000,000	0.63%
Ms. Tin Suen Chu ¹	Long	Interest of spouse	395,942,000	61.92%
	Long	Beneficial owner	620,000	0.10%
Regal Sky Holdings Limited ³	Long	Beneficial owner	49,412,000	7.73%
Ocean Equity Partners Fund L.P. ³	Long	Interest in controlled corporation	49,412,000	7.73%
Ocean Equity Partners Fund GP Limited ³	Long	Interest in controlled corporation	49,412,000	7.73%

Notes:

1. Prima DG directly held 345,696,000 Shares. Prima DG is directly held as to 40% by Mr. Choi Hung Nang. Accordingly, by virtue of the SFO, Mr. Choi Hung Nang is deemed to be interested in all the Shares in which Prima DG is interested.

Since Mr. Choi Hung Nang is the spouse of Ms. Tin Suen Chu, Mr. Choi Hung Nang is deemed to be interested in the same number of Shares in which Ms. Tin Suen Chu is interested by virtue of the SFO.

Since Ms. Tin Suen Chu is the spouse of Mr. Choi Hung Nang, Ms. Tin Suen Chu is deemed to be interested in the same number of Shares in which Mr. Choi Hung Nang is interested by virtue of the SFO.

OTHER INFORMATION

2. Mr. Choi Hung Nang was granted 4,000,000 share options during the year ended 31 December 2016 and 4,000,000 share options during the year ended 31 December 2018 under the Share Option Scheme. 4,000,000 share options were exercised during the period ended 30 June 2021 and was deemed to be interested in 4,000,000 underlying shares in respect of the share options granted.
3. Regal Sky Holdings Limited, a company incorporated under the laws of the British Virgin Islands, is controlled by Ocean Equity Partners Fund L.P., which is an exempted limited partnership registered in the Cayman Islands. The general partner of Ocean Equity Partners Fund L.P. is Ocean Equity Partners Fund GP Limited.

Save as disclosed above, as at 30 June 2021, no other interests or short positions in the Shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company's Share Option Scheme was adopted pursuant to the resolutions of all the shareholders passed on 6 May 2015 and shall be valid and effective for a period of 10 years commencing from 6 May 2015. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions of the employees and directors of the members of the Group and other selected participants.

The board of Directors (the "**Board**") may at its absolute discretion (subject to any conditions as it may think fit) grant options to any employee and director (including executive director, non-executive director and independent non-executive director) of any member of the Group and any other eligible participants (the "**Eligible Participants**") upon the terms set out in the Share Option Scheme.

The subscription price of a Share payable on the exercise of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price shall at least be the highest of: (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a day on which the Stock Exchange is open for the business of dealing in securities ("**Business Day**"); and (iii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme. HK\$1.00 is payable by an Eligible Participant on acceptance of an offer of option. The period within which the Shares must be taken up under an option shall be determined by the Board at its absolute discretion and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme. There is no general requirement that an option must be held for any minimum period before it can be exercised.

OTHER INFORMATION

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other schemes of our Group must not in aggregate exceed 10% of the total number of Shares in issue as at the date on which the Shares were listed on the main board of the Stock Exchange on 27 May 2015 (the “**Limit**”), i.e. 60,000,000 Shares representing approximately 9.38% of the issued Shares as at the date of this interim report. Options which have lapsed in accordance with the terms of the Share Option Scheme (or any other schemes of the Group) will not be counted for the purpose of calculating the Limit. Subject to the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Company may refresh the Limit at any time provided that: (i) the Limit as refreshed does not exceed 10% of the Shares in issue as at the date of the approval by the refreshed Limit; (ii) the options previously granted (including those outstanding, cancelled, lapsed in accordance with the provisions of the Share Option Scheme or exercised options) will not be counted for the purpose of calculating the Limit as refreshed; and (iii) a circular containing the information and the disclaimer, respectively required under Rule 17.02(2)(d) and Rule 17.02(4) of the Listing Rules shall be despatched to the shareholders together with the notice of the relevant general meeting. Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme at any time shall not exceed 30% of the Shares in issue from time to time.

The total number of Shares issued and which fall to be issued upon exercise of the options granted under the Share Option Scheme and any other schemes of the Group (including both exercised and outstanding options) to each Eligible Participant in any period of 12 consecutive months up to and including the date of grant of the options shall not exceed 1% of the Shares in issue as at the date of grant of the options.

On 20 April 2016 and 5 June 2018 (the “**Dates of Grant**”), options to subscribe for an aggregate of 24,700,000 Shares and 23,100,000 Shares were granted respectively to certain Eligible Participants under the Share Option Scheme. The exercise price in respect of each option granted under the Share Option Scheme on 20 April 2016 and 5 June 2018 is HK\$0.88 and HK\$1.12 per Share respectively. The adjusted closing price of the Shares immediately before the Dates of Grant was HK\$0.866 and HK\$1.120 per Share respectively. There was no Eligible Participant with options granted in excess of the individual limit.

During the six months ended 30 June 2021, out of the above share options granted, none was cancelled while 17,450,000 share options exercised and 300,000 share options lapsed.

OTHER INFORMATION

The fair values of the share options granted on 20 April 2016 and 5 June 2018 were HK\$7,823,400 (equivalent to approximately RMB6,780,000) and HK\$10,279,500 (equivalent to approximately RMB8,391,300) respectively, of which the Group recognised a share option expenses of approximately RMB1,009,000 during the six months ended 30 June 2020. No share option expenses recognised during the six months ended 30 June 2021.

The fair value of the share options granted on 20 April 2016 and 5 June 2018 were estimated as at that date by an independent firm of professionally qualified valuers using the binomial option pricing model and taking into account the terms and conditions upon which the options were granted.

The binomial option pricing model required input of subjective assumption such as the expected stock price volatility. Change in subjective input may materially affect the fair value estimates.

Particulars and movements of share options granted under the Share Option Scheme for the six months ended 30 June 2021 were as follows:

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2021	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2021
Directors								
Mr. Choi Hung Nang	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	(1,300,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	(1,300,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	(1,400,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Ms. Choi Kwan Li, Glendy	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	(1,300,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	(1,300,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	(1,400,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000

OTHER INFORMATION

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2021	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2021
Mr. Choi Hon Ting, Derek	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	1,300,000	-	(1,300,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	1,300,000	-	(1,300,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	1,400,000	-	(1,400,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	2,000,000	-	-	-	2,000,000
Mr. Liu Tom Jing-zhi	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	650,000	-	(650,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	650,000	-	(650,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	700,000	-	(700,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
Mr. Lao Kam Chi	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	650,000	-	(650,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	650,000	-	(650,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	700,000	-	(700,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	1,000,000	-	-	-	1,000,000
Mr. Alain Vincent Fontaine	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000

OTHER INFORMATION

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2021	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2021
Mr. Chan Lewis	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
Mr. Li Zongjin	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	100,000	-	(100,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
Mr. Lee Wai Yat, Paco	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	150,000	-	-	-	150,000
Mr. Fok Wai Shun, Wilson	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	130,000	-	(130,000)	-	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	130,000	-	(130,000)	-	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	140,000	-	(140,000)	-	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	200,000	-	-	-	200,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	200,000	-	-	-	200,000
				34,600,000	-	(17,000,000)	-	17,600,000

OTHER INFORMATION

Name of Grantee	Date of Grant	Exercise Period	Exercise Price per Share	Outstanding as at 1 January 2021	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2021
Other employees in aggregate	20/4/2016	1/10/2016 – 19/4/2021	HK\$0.88	200,000	-	(100,000)	(100,000)	-
	20/4/2016	1/10/2017 – 19/4/2021	HK\$0.88	250,000	-	(150,000)	(100,000)	-
	20/4/2016	1/10/2018 – 19/4/2021	HK\$0.88	300,000	-	(200,000)	(100,000)	-
	5/6/2018	1/10/2019 – 4/6/2023	HK\$1.12	1,200,000	-	-	-	1,200,000
	5/6/2018	1/10/2020 – 4/6/2023	HK\$1.12	1,200,000	-	-	-	1,200,000
				3,150,000	-	(450,000)	(300,000)	2,400,000
				37,750,000	-	(17,450,000)	(300,000)	20,000,000

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this interim report, the Company has maintained a sufficient public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the six months ended 30 June 2021.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had approximately 385 employees (31 December 2020: 402). The total staff costs for the six months ended 30 June 2021 amounted to approximately RMB35,104,000 (six months ended 30 June 2020: RMB33,686,000).

The remuneration policy of the Group was based on performance of employees, market conditions, business demands and expansion plans. The Group offered different remuneration packages to the employees based on their positions, which included salaries, discretionary bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The Group also provided training to employees on a regular basis. In accordance with the relevant requirements, the Group made contributions to pension and provided other employees benefits.

OTHER INFORMATION

The Company has adopted a share option scheme of the Company pursuant to which employees may be granted options to subscribe for shares of the Company as incentives or rewards for their services rendered to the Group. No option has been granted during the six months ended 30 June 2021 and 2020.

INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2021.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. During the six months ended 30 June 2021, the Company has, in the opinion of the Directors, complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Specific enquiry has been made to all the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the period.

REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "**Audit Committee**") which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting system, risk management and internal control systems. The Audit Committee comprises four members, namely Mr. O'Yang Wiley (Chairman), Mr. Li Zongjin, Mr. Lee Wai Yat, Paco and Mr. Fok Wai Shun, Wilson. All of them are independent non-executive Directors. The interim results of the Group for the six months ended 30 June 2021 have been reviewed by the Audit Committee.

OTHER INFORMATION

The Company's auditor, PricewaterhouseCoopers, has also reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2021 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CHANGE OF DIRECTORS' INFORMATION

Each of the Director, except for Mr. Alain Vincent Fontaine and Mr. O'Yang Wiley, has renewed his/her service agreement with the Company for a further period of three years commencing from 27 May 2021. Save for the change of emolument of Mr. Lao Kam Chi as disclosed in 2020 Annual Report of the Group, the emolument of each of the Director has not changed upon the renewal of their service agreements and other terms and conditions of their service agreements remained the same.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



TO THE BOARD OF DIRECTORS OF D&G TECHNOLOGY HOLDING COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 33 to 60 which comprises the interim condensed consolidated statement of financial position of D&G Technology Holding Company Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at 30 June 2021 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 August 2021

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Note	Unaudited Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	6	197,078	128,331
Cost of sales		(130,989)	(114,104)
Gross profit		66,089	14,227
Other income and other gains, net	7	2,931	4,035
Distribution costs		(38,578)	(28,884)
Administrative expenses		(33,489)	(30,214)
Net reversal of impairment losses on financial assets	8	5,331	10,880
Operating profit/(loss)		2,284	(29,956)
Finance income, net		7,202	5,145
Share of profit of an associate	12(a)	958	1,507
Share of profit/(loss) of a joint venture	12(b)	465	(190)
Profit/(loss) before income tax		10,909	(23,494)
Income tax expense	9	(2,681)	(3,515)
Profit/(loss) for the period attributable to owners of the Company		8,228	(27,009)
Earnings/(loss) per share attributable to owners of the Company during the period			
– Basic (RMB cents)	10(a)	1.31	(4.34)
– Diluted (RMB cents)	10(b)	1.27	(4.34)

The above interim condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Profit/(loss) for the period	8,228	(27,009)
Other comprehensive (loss)/income for the period, net of tax		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	(999)	2,952
Total comprehensive profit/(loss) attributable to owners of the Company for the period	7,229	(24,057)

The above interim condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	122,574	127,298
Intangible assets	11	2,219	2,680
Investment in an associate	12(a)	57,717	56,759
Investment in a joint venture	12(b)	–	1,825
Amount due from a joint venture	21(b)	–	546
Financial asset at fair value through profit or loss	13	20,000	20,000
Deferred tax assets		11,621	12,342
Total non-current assets		214,131	221,450
Current assets			
Inventories		241,965	231,004
Trade and bills receivables	14	197,161	189,634
Amount due from a joint venture	21(b)	2,888	4,416
Prepayments, deposits and other receivables		52,718	38,835
Pledged bank deposits		67,126	49,011
Cash and cash equivalents		213,819	188,778
Total current assets		775,677	701,678
Non-current asset classified as asset held for sale		1,790	–
Total assets		991,598	923,128
EQUITY			
Share capital	17	5,059	4,912
Other reserves		580,190	567,538
Retained earnings		82,133	74,766
Total equity		667,382	647,216

The above interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		1,868	2,257
Deferred tax liabilities		4,500	4,500
Total non-current liabilities		6,368	6,757
Current liabilities			
Borrowings	15	27,804	31,145
Trade and other payables	16	196,114	161,043
Contract liabilities	16	91,553	73,774
Lease liabilities		1,025	1,265
Amount due to a joint venture		–	500
Income tax payable		1,352	1,428
Total current liabilities		317,848	269,155
Total liabilities		324,216	275,912
Total equity and liabilities		991,598	923,128

The above interim condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Unaudited							Total equity RMB'000
	Attributable to owners of the Company							
	Share capital RMB'000 Note 17(a)	Share premium RMB'000 Note 17(b)	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Share options reserve RMB'000	Retained earnings RMB'000	
Unaudited:								
Balance at 1 January 2020	4,912	420,899	65,290	45,051	27,228	13,213	90,294	666,887
Comprehensive loss								
– Loss for the period	-	-	-	-	-	-	(27,009)	(27,009)
Other comprehensive income								
– Currency translation differences	-	-	-	-	2,952	-	-	2,952
Total comprehensive loss	-	-	-	-	2,952	-	(27,009)	(24,057)
Employee share option scheme								
– value of employee services	-	-	-	-	-	1,009	-	1,009
Balance at 30 June 2020	4,912	420,899	65,290	45,051	30,180	14,222	63,285	643,839
Unaudited:								
Balance at 1 January 2021	4,912	420,899	65,290	44,219	23,709	13,421	74,766	647,216
Comprehensive income								
– Profit for the period	-	-	-	-	-	-	8,228	8,228
Other comprehensive income								
– Currency translation differences	-	-	-	-	(999)	-	-	(999)
Total comprehensive income	-	-	-	-	(999)	-	8,228	7,229
Employee share option scheme								
– Exercise of share options	147	12,790	-	-	-	-	-	12,937
– Lapse of share options	-	-	-	-	-	(82)	82	-
Transfer to statutory reserve	-	-	-	943	-	-	(943)	-
Balance at 30 June 2021	5,059	433,689	65,290	45,162	22,710	13,339	82,133	667,382

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	11,438	(4,984)
Income tax paid	(2,037)	(1,147)
Net cash generated from/(used in) operating activities	9,401	(6,131)
Cash flows from investing activities		
Payment for acquisition of property, plant and equipment	(3,004)	(3,449)
Proceeds from disposal of property, plant and equipment	8,677	28,417
Interest received	1,867	797
Net cash generated from investing activities	7,540	25,765
Cash flows from financing activities		
Repayments of borrowings	(7,424)	(56,317)
Proceeds from borrowings	4,399	38,703
Principal elements of lease payments	(695)	(680)
Interest paid of lease liabilities	–	(27)
Interest expenses paid	(595)	(1,836)
Decrease/(increase) in bank deposits pledged for bank borrowings	211	(540)
Proceeds from the exercise of share options	12,937	–
Net cash generated from/(used in) financing activities	8,833	(20,697)
Net increase/(decrease) in cash and cash equivalents	25,774	(1,063)
Cash and cash equivalents at beginning of the period	188,778	94,912
Effect of foreign exchange rate changes	(733)	3,279
Cash and cash equivalents at end of the period	213,819	97,128

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Group is principally engaged in manufacturing, distribution, research and development and operating lease of asphalt mixing plants and sales of spare parts and modified equipment.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27 May 2015.

The condensed consolidated interim financial information is presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34, "Interim financial reporting".

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2020, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2021:

- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (CONTINUED)

(b) New standards, amendments to existing standards and interpretations not yet adopted

The following new standards, amendments to existing standards and interpretations have been issued but are not yet effective for the financial year beginning on 1 January 2021 and have not been early adopted by the Group:

Standards	Subject	Effective for annual periods beginning on or after
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKAS 16	Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Cost of Fulfilling a Contract	1 January 2022
Annual improvement project	Annual Improvements 2018-2020 Cycle	1 January 2022
AG 5 (revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKAS 1	Classification of Liabilities as Current and Non-current (amendments)	1 January 2023
HK Int 5 (2020)	Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The above new standards and amendments to existing standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards and amendments to existing standards when they become effective.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 ESTIMATES

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of the Group for the year ended 31 December 2020.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2020.

There have been no changes in the risk management policies since 31 December 2020.

(b) Fair value estimation

The carrying amounts of the Group's financial assets and liabilities with a maturity of less than one year, including trade and bills receivables, prepayments, deposits and other receivables, cash and cash equivalents, pledged bank deposits, amount due from a joint venture, trade and other payables, lease liabilities and borrowings approximate their fair values.

See Note 13 for the disclosures of the investment in convertible bond that is measured at fair value.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company who make strategic decisions.

The Group has determined that it only has one major operating segment which is the sales of asphalt mixing plants, spare parts, and modified equipment and leasing of asphalt mixing plants.

Revenue consists of the following:

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of asphalt mixing plants	180,559	111,476
Sales of spare parts and modified equipment	14,312	15,795
	194,871	127,271
Revenue from other sources		
Operating lease income of asphalt mixing plants	2,207	1,060
	197,078	128,331
Revenue from contracts with customers recognised at a point in time	194,871	127,271

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION (CONTINUED)

(a) Revenue from external customers by country

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
People's Republic of China (the "PRC")	185,641	95,348
Outside the PRC	11,437	32,983
	197,078	128,331

(b) Non-current assets

The geographical location of the non-current assets, excluding deferred tax assets, is based on the physical location of the assets.

	Unaudited	Audited
	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
The PRC	155,516	161,224
Outside the PRC	46,994	47,884
	202,510	209,108

(c) Information about major customer

Revenue from the customer contributing over 10% of the total revenue of the Group is as follows:

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Customer A	–	14,211

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION (CONTINUED)

(c) Information about major customer (Continued)

No customer with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2021. The amount for the six months ended 30 June 2020 shown above is for comparative purpose only.

Except for Customer A, there were no other customers individually accounted for more than 10% of the Group's revenue for the six months ended 30 June 2020.

7 OTHER INCOME AND OTHER GAINS, NET

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Other income		
Government grants (Note)	133	827
Interest income from a financial asset at fair value through profit or loss (Note 13)	566	–
Others	92	11
	791	838
Other gains, net		
Net gain on disposal of property, plant and equipment	1,594	6,328
Exchange gain/(loss), net	124	(3,306)
Others	422	175
	2,140	3,197
	2,931	4,035

Note:

Government grants mainly represent operating subsidies. There were no unfulfilled conditions and other contingencies attached to these grants.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging/(crediting) the following:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	<i>RMB'000</i>
Cost of inventories	128,518	106,165
Employee benefit expenses	35,104	32,677
Share-based payment expenses	–	1,009
Depreciation and amortisation (Note 11)		
– Property, plant and equipment under operating leases	841	3,117
– Other property, plant and equipment	4,249	4,632
– Intangible assets	543	567
Net reversal of impairment losses on trade receivables	(5,221)	(10,880)
Net reversal of impairment losses on other receivables	(110)	–
Provision for impairment of inventories	128	15,586
Provision for impairment of property, plant and equipment (Note 11)	–	3,677

9 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	<i>RMB'000</i>
Current income tax		
– PRC enterprise income tax	(1,456)	(52)
– Withholding tax	(1,296)	–
– Over-provision in prior period	792	85
Deferred income tax	(721)	(3,548)
	(2,681)	(3,515)

No provision for Hong Kong profits tax was made for the current period (2020: Nil) as the Group had no assessable profits subject to Hong Kong profits tax for the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 INCOME TAX EXPENSE (CONTINUED)

The Group's operations in the PRC are subject to PRC enterprise income tax at a statutory rate of 25% (2020: 25%).

According to the PRC enterprise income tax law and its relevant regulations, a wholly-owned subsidiary of the Company, Langfang D&G is qualified as a "high and new technology enterprise" under the tax law and entitled to a preferential income tax rate of 15% (2020: 15%).

Under the PRC enterprise income tax law and its relevant regulations, a 75% (2020: 75%) additional tax deduction is allowed for qualified research and development expenses.

10 EARNINGS/(LOSS) PER SHARE

(a) Basic

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to owners of the Company and the weighted average number of ordinary shares in issue during the period.

The calculations of the basic earnings/(loss) per share are as follows:

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit/(loss) attributable to owners of the Company (RMB'000)	8,228	(27,009)
Weighted average number of ordinary shares in issue	629,671,000	621,958,000
Basic earnings/(loss) per share (expressed in RMB cents per share)	1.31	(4.34)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 EARNINGS/(LOSS) PER SHARE (CONTINUED)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares arise from the share options, for which calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit/(loss) attributable to owners of the Company (RMB'000)	8,228	(27,009)
Weighted average number of ordinary shares in issue	629,671,000	621,958,000
Adjustment for share options (Note)	17,968,000	–
Weighted average number of ordinary shares for diluted earnings/(loss) per share	647,639,000	621,958,000
Diluted earnings/(loss) per share (expressed in RMB cents per share)	1.27	(4.34)

Note:

Diluted loss per share for the six months ended 30 June 2020 was the same as the basic loss per share as potential ordinary shares arising from share options were not treated as dilutive since the conversion to ordinary shares would not increase the loss per share.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment		
	Right-of-use assets <i>RMB'000</i>	Other property, plant and equipment <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
Unaudited:			
Six months ended 30 June 2021			
Net book value			
At 1 January 2021	8,196	119,102	2,680
Additions	-	3,004	-
Disposals	-	(1,969)	-
Transfers	-	(84)	84
Amortisation (Note 8)	-	-	(543)
Depreciation (Note 8)	(712)	(4,378)	-
Exchange difference	(7)	(578)	(2)
At 30 June 2021	7,477	115,097	2,219
Unaudited:			
Six months ended 30 June 2020			
Net book value			
At 1 January 2020	5,528	159,717	3,809
Additions	1,249	3,449	-
Disposals	-	(25,215)	-
Amortisation (Note 8)	-	-	(567)
Depreciation (Note 8)	(735)	(7,014)	-
Impairment (Note 8)	-	(3,677)	-
Exchange difference	-	994	3
At 30 June 2020	6,042	128,254	3,245

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12(a) INVESTMENT IN AN ASSOCIATE

The movement of the investment in an associate during the period is as follows:

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Balance at 1 January	56,759	54,883
Transfer to investment in a joint venture (Note)	–	(870)
Share of profit	958	1,507
Balance at 30 June	57,717	55,520

Note:

According to the shareholders' agreement on 7 March 2020, the Group committed to increase its investment in Sichuan RTDL to RMB6,000,000, representing the Group holds 50% paid-in capital of Sichuan RTDL. Pursuant to the resolution of shareholders' meeting on 7 March 2020, the Group was able to appoint 2 directors of Sichuan RTDL, and obtained 50% voting right in Sichuan RTDL through board representation. Therefore, Sichuan RTDL is accounted for as a joint venture of the Group since 7 March 2020.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12(b) INVESTMENT IN A JOINT VENTURE

The movement of the investment in a joint venture during the period is as follows:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	<i>RMB'000</i>
Balance at 1 January	1,825	–
Transfer from investment in an associate	–	870
Addition	–	500
Share of profit/(loss)	465	(190)
Transfer to non-current asset classified as held for sale (Note)	(2,290)	–
Balance at 30 June	–	1,180

Note:

On 30 May 2021, the Group entered into an agreement to transfer 50% of equity interest in Sichuan RTDL to the joint venture partner, an independent third party of the Group for a consideration of RMB2,402,000. According to the terms of the agreement, the joint venture partner has waived the Group's amount due to Sichuan RTDL of RMB500,000. Since the share transfer has not been completed as at 30 June 2021, the investment in a joint venture has been classified as non-current asset classified as held for sale and the carrying amount of the investment in a joint venture of RMB2,290,000 would net-off against the amount due to Sichuan RTDL of RMB500,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial asset at fair value through profit or loss comprise the following:

	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Non-current assets		
Investment in convertible bond	20,000	20,000

In 2020, the Group purchased a convertible bond issued by 浙江正方瀝青混凝土科技有限公司 (the “**Issuer**”), amounting to RMB20,000,000. The Issuer of the convertible bond is engaged in providing asphalt concrete for highway construction through setting up asphalt concrete stations. The convertible bond is guaranteed by the parent holding company of the Issuer and is interest bearing at 6% per annum. Under the convertible bond agreement, the Group has the right to exercise its equity conversion option at the conversion ratio of the higher of (i) 1.5 times of the net assets of the Issuer as at 31 December 2023 or (ii) 6 times of the weighted average of its net profits for the years ended 31 December 2022 and 2023, both of which are calculated with reference to its audited accounts prepared in accordance with the PRC generally accepted accounting principles.

Valuation process

The Group measures its financial asset at fair value through profit or loss at fair value. Fair value assessments of the convertible bonds were performed as at 30 June 2021 by an independent firm of professionally qualified valuers. The Group’s finance department reviews the valuations performed by the independent valuer for financial reporting purposes. Discussions of valuation processes and results are held between management and the valuer at least once every six months, in line with the Group’s interim and annual reporting dates. The main input used by the Group for financial asset at fair value through profit or loss pertains to the expected volatility and discount rate. The inputs are quantified on the basis of relevant restricted stock studies and represents the most significant unobservable input applied to arrive at the fair value measurement.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE AND BILLS RECEIVABLES

	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Trade receivables from third parties	249,059	251,896
Less: discounting impact	(11,908)	(11,702)
Less: loss allowance	(55,053)	(60,274)
	182,098	179,920
Bills receivables	15,063	9,714
Total trade and bill receivables	197,161	189,634

- (a) Trade receivables under credit sales arrangement are due for payment in accordance with specific payment terms as agreed with individual customers on a case by case basis, subject to the fulfilment of conditions as stipulated in the respective sales contracts. Credit terms up to 18 months were generally granted to the Group's customers.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE AND BILLS RECEIVABLES (CONTINUED)

- (b) The ageing analysis of the trade receivables as at the end of the reporting period based on the date of revenue recognition is as follows:

	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Within 1 year	170,504	159,361
1 to 2 years	30,022	38,290
2 to 3 years	9,773	16,622
Over 3 years	38,760	37,623
	249,059	251,896

Certain trade receivables relating to customers with known financial difficulties or significant doubt on settlement of receivables are assessed individually for provision for impairment allowance. Expected credit losses are estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer and its ageing category, and applying the expected credit loss rates to the respective gross carrying amounts of the trade receivables.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 BORROWINGS

Borrowings repayable within one year or repayable beyond one year but with repayment on demand clause are analysed as follows:

	Secured bank loans	
	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Within 1 year	27,804	31,145

As at 30 June 2021, borrowings of RMB13,001,000 (31 December 2020: RMB13,599,000) were secured by pledged bank deposits of RMB22,645,000 (31 December 2020: RMB22,856,000) and property, plant and equipment of RMB34,189,000 (31 December 2020: RMB34,699,000) while borrowings of RMB4,399,000 (31 December 2020: Nil) were secured by bills receivables of RMB4,399,000. The remaining borrowings of RMB10,404,000 (31 December 2020: RMB17,546,000) were secured by the corporate guarantee provided by the Company.

Movements of borrowings are analysed as follows:

	RMB'000
Unaudited:	
Balance at 1 January 2021	31,145
Repayments of borrowings	(7,424)
Proceeds from borrowings	4,399
Exchange difference	(316)
Balance at 30 June 2021	27,804
	<i>RMB'000</i>
Unaudited:	
Balance at 1 January 2020	77,551
Repayments of borrowings	(56,317)
Proceeds from borrowings	38,703
Exchange difference	1,369
Balance at 30 June 2020	61,306

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Trade payables	61,190	69,071
Bills payables (Note)	98,437	58,123
	159,627	127,194
Amount due to a related party	310	310
Other payables and accruals	36,177	33,539
	36,487	33,849
Total trade and other payables	196,114	161,043
Contract liabilities	91,553	73,774
	287,667	234,817

Note:

The Group's bills payables were secured by the Group's pledged bank deposits of approximately RMB44,481,000 (31 December 2020: RMB26,155,000), property, plant and equipment of RMB7,277,000 (31 December 2020: RMB7,720,000) and land use right of RMB4,638,000 (31 December 2020: RMB 4,705,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (CONTINUED)

The ageing analysis of trade and bills payables as at the end of the reporting period based on invoice date is as follows:

	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Within 3 months	93,293	79,469
After 3 months but within 6 months	50,951	35,147
After 6 months but within 1 year	13,242	9,541
Over 1 year	2,141	3,037
	159,627	127,194

17 SHARE CAPITAL AND SHARE PREMIUM

(a) Share capital

Authorised:

	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$
At 1 January 2020, 30 June 2020, 1 January 2021 and 30 June 2021	2,000,000,000	20,000,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

(a) Share capital (continued)

Issued and fully paid:

	Number of shares (‘000)	HK\$’000	RMB’000
At 1 January 2020, 30 June 2020 and 1 January 2021	621,958	6,220	4,912
Exercise of share options (Note)	17,450	175	147
At 30 June 2021	639,408	6,395	5,059

Note: Proceeds from the exercise of share options amounted to approximately RMB12,937,000 for the six months ended 30 June 2021.

(b) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 INTERIM DIVIDEND

No interim dividend was proposed by the Board for the six months ended 30 June 2021 (2020: Nil).

19 COMMITMENTS

Capital commitments

The Group's capital commitments for investment in a joint venture and purchase of property, plant and equipment at the end of the period are as follows:

	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Contracted for:		
Investment in a joint venture	–	4,500
Property, plant and equipment	937	2,015
	937	6,515

As at 30 June 2021, there is no capital commitments authorised but not contracted for (31 December 2020: Same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 CONTINGENT LIABILITIES

Financial guarantee issued

Certain customers of Langfang D&G, a principal operating subsidiary of the Group, financed their purchase of the Group's plants through finance leases provided by third-party leasing companies and Shanghai Topp. Under the leasing arrangement, Langfang D&G provides guarantee to the third-party leasing companies and Shanghai Topp that in the event of customer default, the third-party leasing companies and Shanghai Topp have the rights to demand Langfang D&G to repay the outstanding lease payments due from the customers for the repossession of the leased plants. As at 30 June 2021, the Group's maximum exposure to such guarantees was approximately RMB68,641,000 (31 December 2020: RMB91,570,000).

21 RELATED PARTY TRANSACTIONS AND BALANCES

The Group is controlled by Prima DG Investment Holding Company Limited (incorporated in the British Virgin Islands), which owns approximately 54% of the Company's shares. The remaining approximately 46% of the shares are widely held. The ultimate controlling party of the Group is Choi Family (Mr. Choi Hung Nang, Ms. Tin Suen Chu, Mr. Choi Hon Ting, Derek and Ms. Choi Kwan Li, Glendy).

(a) Transactions with related parties

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Purchase of goods and services from an associate	177	–
Interest income from a joint venture	58	182
	235	182

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Year end balances

	Note	Unaudited At 30 June 2021 RMB'000	Audited At 31 December 2020 RMB'000
Amount due from a joint venture – Sichuan RTDL	(i)	2,888	4,962
Amount due to a joint venture – Sichuan RTDL	(iii)	–	500
Included in other receivables: Amount due from an associate, Shanghai Topp	(ii)	1,170	1,832
Included in other payables: Amount due to a related party – Entity controlled by Choi Family	(ii)	310	310

Notes:

- (i) As at 30 June 2021 and 31 December 2020, amount due from a joint venture represented receivables in respect of disposal of machineries to Sichuan RTDL and the accumulated interest. The balance was interest bearing at 4.5% per annum, and was unsecured. The balance shall be settled by monthly installments before March 2022.
- (ii) As at 30 June 2021 and 31 December 2020, the amounts due from/(to) an associate, a joint venture and a related party were unsecured, interest free and repayable on demand.
- (iii) As at 31 December 2020, the amount due to a joint venture was unsecured, interest free and repayable on demand.

22 SUBSEQUENT EVENT

With the floods in Central China in July 2021, the domestic logistic arrangements have been affected, which led to a delay in the delivery of the Group's asphalt-mixing plants to certain of its customers. The Group will continuously monitor the situation of the floods to minimise their impact on the financial position and performance of the Group.